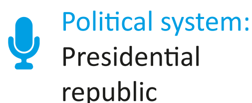
Uruguay

Capital city:
Montevideo

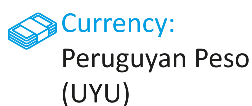
Aera:
176,220 km^2

Population:
3,500,000

Language:
Spanish


Political system:
Presidential republic

GDP/capita 2015:
USD 13,350


Currency:
Peruguyan Peso (UYU)

ISO Code:
URY

Telephone code:
+598

National day:
25 August

Uruguay

Uruguayan law establishes that “tax is the pecuniary contribution that the State demands, exercising its imperium, with the purpose of obtaining resources for the fulfillment of its objectives” and it divides them into: Taxes, Charges and Contributions (this includes Special Contributions to Social Security – social charges).

On the other hand, the Customs Code regulates everything having to do with customs tariffs and the importing and exporting of goods and services.
Only Parliament, by means of a law, has the power to suggest and impose national taxes.

1. National Taxes

The main National Taxes currently in force are:

1.1 National Taxes

- income Tax on Economic Activities;
- income Tax on Individuals;
- income Tax on Nonresidents;
- equity Tax;
- specific Internal Tax;
- added Value Tax;
- agricultural Assets Transfer Tax;
- unified Tax (Monotributo).

1.2 Departmental Taxes

The Uruguayan Constitution gave the Departmental Governments (a total of 19) the authority to collect only some taxes.
Each Departmental Authority has the power to create taxes and contributions to meet their expenses and the main ones are:

1.3 Provincial Taxes:

- real Estate Contribution;
- vehicle Tax;
- bromatology Service Charge;

- street Lighting and/or Sanitation Charge.

Below is a description of the main features of the National Taxes.

2. Income tax on economic activities (IRAE)

2.1 Types of income included

- Corporate income.
- Included in corporate income owing to the transfer of property being an habitual activity.
- Included in the Income of Individuals who opt for or are liable to this tax.

2.2 Categories subject to tax

The generator of this tax includes industrial, commercial and service activities performed by companies. Companies are understood to mean any production unit that combines capital and labor to produce an economic result. This definition constitutes a first basic element for inclusion within the scope of this tax.

2.3 Source

In general terms, Uruguay's taxation system has adopted the criterion of territoriality and, consequently, only Uruguay-source income is taxed, regardless of the nationality, domicile or residence of the person who pays the tax or the jurisdiction where the contract relating to said income was entered into.

2.4 Taxpayers

There are three types of taxpayer:

- those who are taxpayers by reason of their legal status, among them commercial companies, permanent establishments of nonresident entities, investment funds, trust funds, some state-owned entities, and economic interest groups;
- natural persons or individuals and de facto or noncommercial partnerships when they engage in business activities, in other words when they are owners of companies;
- persons engaged in activities such as agriculture and livestock rearing or the provision of personal services, when, by reason of having exercised the option or because they have exceeded a given economic size, they fall within the scope of the tax as established in the rules.

2.5 Tax Rate

The tax rate is 25% and it is levied on net taxable income. Net taxable income is assessed based the economic result that has been verified by accounting means and adjusted to take account of compulsory inclusions and deductions allowed by the tax regulations, one being the result adjusted for inflation, whose calculation is compulsory.

Moreover, if companies distribute profits to their shareholders, they shall pay an additional 7% on the amount on which the 25% was already levied. Assuming that the entire remaining 75% after paying IRAE is distributed, the effective rate would be 30.25% (25% + 7% of the remaining 75%).

In addition, some taxpayers, by virtue of their line of business, legal status and their small economic size, may use fictitious regimes for assessing their taxable income. To do that, they must apply 13.2%, 36%, 48% 60 or 72% to their gross sales, depending on the billing levels achieved in the economic year, which represents an effective rate on billing of 3.3%, 9%, 12%, 15% and 18%, respectively.

2.6 Tax year, Advance Tax, Payments and Calculation of Payment on Account

Tax Year

Income Tax on Economic Activities is assessed and paid each tax year and depending on the date on which the company closes its accounts.

Advance Tax

Advance payments against tax must be made based on the tax assessed for the previous tax year.

Payments

Any outstanding tax must be paid within four months of the close of the accounting year and the monthly advance tax payments from the month following the month of payment.

3. Income tax on individuals (IRPF)

3.1 Types of Income Included

The law provides for two categories of income obtained based on the production factor generating them, namely: capital and labor. It will be recalled that income from the joint use of both factors is subject to income tax on economic activities (IRAE) and, consequently, is not taxed income for the purposes of income tax on individuals (IRPF).

In turn, each category of taxed income allows two sub-categories: in income from the productive factor capital (unearned income), we have "returns on capital" and "increases in equity"; and income from the labor factor includes income obtained in a relationship of dependence and outside such a relationship (earned income).

Unearned Income

"Returns on capital" are basically defined as income in money or in kind that comes directly or indirectly from elements of equity, assets or rights of which the taxpayer is the owner. Returns on capital are subdivided, in turn, into returns on movable assets and returns on real property.

"Increases in equity" are those arising from the transfer, pledge of transfer, assignment of pledge of transfer or assignment of hereditary or possessory rights and those resulting from a declaratory judgment of acquisitive prescription of tangible and intangible assets.

Earned Income

Income obtained in a relationship of dependence is made up of regular or extraordinary income, in money or in kind, generated by taxpayers as a result of their personal activity carried out under a "work contract." This relationship is governed by Labor Law and, with some exceptions, income that is subject to the tax dealt with in this chapter is also subject to Special Social Security Contributions.

Earned income obtained outside a relationship of dependence is the income obtained by professionals, skilled workmen, experts or independent workers in payment for the personal services they provide in practicing their profession, specialty or trade.

3.2 Taxpayers

Taxpayers are resident natural persons (individuals and/or in some cases households). This means that income tax could be assessed based on family income.

In order to determine what constitutes residence, the law basically adopts the grounds of the OCED's model. It will also be recalled that, in general, the different types of company were included in the IRAE pursuant to the regulations, and for that reason they are not subject to this tax.

3.3 Tax Rate

The rates for unearned income go from 3%, the rate applicable to interest on bank deposits in local currency for terms of more than one year, to 12%, the rate applicable to the vast majority of income of this kind. Special mention needs to be made of the rate of 7% applicable to dividends and profits distributed by commercial companies. This rate should be considered complementary to the tax on income tax on economic activities (IRAE), as it is only levied on distributions of income on which IRAE has been effectively levied. Consequently, if a given company obtains foreign-source income or achieves exonerations under current provisions (e.g. obtaining a declaration of national interest for a given industrial project), IRAE-exonerated income will also be exonerated (and in the same proportion) from income tax on individuals (IRPF) at the time of its distribution. It is also worth mentioning that dividends obtained by commercial companies from their equity interest in other companies are not subject to any tax by virtue of a specific exoneration from IRAE, which is an incentive to form "Investment Partnerships" or "Group Partnerships."

In the case of earned income, a progressive scale has been established that is applied on brackets from a minimum nontaxable amount of approximately US$1,000 a month to a maximum of 25% applicable to the higher brackets.
Finally it should be noted that those who receive unearned income and earned income outside a relationship of dependence may opt for paying IRAE instead of IRPF to which they are liable in the first instance.

3.4 Tax year, Advance Tax, Payments and Calculation of Payment on Account

Tax Year

In the case of individuals, tax is assessed and paid each tax year, whose closing date is December 31.

Advance Tax

Advance tax payments must be made, based on income obtained, each month of the calendar year.

4. Income tax on nonresidents (IRNR)

4.1 Types of income subject to the tax

When defining the generator of this tax, the law cites income tax on individuals (IRPF) in the case of unearned income and earned income obtained outside a work relationship of dependence, provided said income is obtained by individuals or companies not resident in the country. It also includes corporate income. However, in the case of corporate income, attention needs to be paid to the concept of "nonresident," given that, in Uruguay, it can apply to different degrees of permanence in the country.

If corporate income is generated by a nonresident entity that has met some of the "permanent establishment" criteria, then said entity pays IRAE (income tax on economic activities) and not IRNR (income tax on nonresidents). To be included in IRNR, business activity must be sporadic or for a short period.

4.2 Taxpayer

Taxpayers liable to IRNR are nonresident individuals and companies. All companies incorporated abroad are considered nonresident, without this precluding the concept of "permanent establishment" to which we referred when defining the generator of the tax.

The criterion for establishing the residence or non-residence of individuals is the same as the criterion defined for IRPF (income tax on individuals). Consequently, any Uruguayan or foreign individual who obtains Uruguay-source income shall be liable to one of the two taxes on the basis of similar concepts of residence.

4.3 Tax Rate

The scale of rates is the same as for the scale established for IRPF, unearned income. Consequently, the rate applied goes from a minimum of 3% for certain types of interest to a maximum of 12% for nearly all other income. The rate of 7% also applies to the distribution of dividends and profits.

5. Equity tax

5.1 Generator of the tax

The Equity Tax is levied on the wealth of individuals or companies and, conceptually, wealth is determined based on the definition it is given in Civil Law, namely, the series of assets, rights and liabilities of a given taxpayer at a given point in time. So, we can talk of assets and liabilities being included in the concept of equity.

The assets included are assets and rights located, placed or utilized in the Republic, hence the conclusion is that there is no taxation on wealth located outside Uruguay's territorial limits; whereas the liabilities, the taxpayer's obligations, have to meet a series of strict requirements in order to be computable and deductible, which is why doctrine refers to there being a true tax on "assets" rather than a tax on wealth, wealth being understood as net worth.

On the other hand, there is a long list of assets that are exempt from tax or for which there is tax relief, among them some assets allocated to agriculture and livestock rearing, industrial machinery, bank deposits in certain situations, and assets allocated to projects declared to be in the national interest.

There are two different sets of rules for assessing taxed equity that apply to different types of taxpayer. Individuals, households and undivided estates generally appraise their nonmonetary assets using values established by state agencies, such as assessed values (real property) determined by the real estate register or the values determined by the municipal authorities (vehicles), and even percentage fictions (a home's movable property).

Companies and commercial partnerships, on the other hand, establish their wealth in accordance with accounting standards whose use is mandatory. Once the net worth has been determined on the company's general balance sheet, it is adjusted in accordance with the valuation criteria that are applicable in the case of IRAE, which do not always coincide with the accounting criteria used.
In the case of companies and commercial partnerships, the moment in which this tax accrues is the closing date of their economic year and they must make monthly advance tax payments based on the tax assessed for the last tax year.
In the case of individuals and other taxpayers, the closing date is December 31 each year and they make three advance tax payments during the year (September, October and December) based on the tax assessed for the last tax year.

5.2 Taxpayer

There are several types of taxpayer, as we have already mentioned:

- natural persons or individuals, households and undivided estates. A household is made up of the spouses living together. Undivided estates exist for tax purposes from the death of the testator until the declaration of heirship.
- companies and/or commercial partnerships
- permanent establishments of nonresident entities
- taxpayers who are liable to IRNR. Nonresident individuals are included in the first group, which means that this refers to all other nonresident entities.

5.3 Tax Rates

Companies and commercial partnerships pay tax at a rate of 1.5%; banks at a rate of 2.8%, and bearer securities at a rate of 3.5%.
Individuals, households and undivided estates apply a progressive scale of tax brackets that goes from 0.7% to 3% for amounts above a nontaxable minimum.

6. Specific internal tax (IMESI)

The Specific Internal Tax (IMESI) is levied on the first transfer, whether for payment or free of charge, and importing of alcoholic beverages and some nonalcoholic beverages such as natural fruit juices, soft drinks and mineral waters, potable alcohols, cigars, cigarettes and tobaccos, automobiles and other motor vehicles, auto parts, grease and lubricants for vehicles, and fuels such as naphtha and gasoil.

It is also levied on perfumes and perfumery products in general, including artificial articles that are applied to the human body for purposes of beautification, electric razors, toiletries, etc.

The purpose of this tax is to discourage the consumption of some goods (alcohols, cigars, etc.) and/or tax goods that, at any given time, are considered luxury goods or not relevant (automobiles) but that, today, represent a good source of financing for the treasury, which does not want its current tax receipts to shrink.

7. Value added tax

Uruguay adopts a universally accepted definition of how this tax is levied, namely on the increase in value added at each stage of the economic cycle to the goods circulating and services provided in the economy. Assessment is by the financial base and tax-against-tax method.

7.1 Generator

Since it started to be levied in 1972, VAT acknowledges three generators:

- the circulation of goods inside the country;
- the entry of goods into the country;
- the provision of services.

Circulation of goods inside the country: This includes not only the bargain and sale of taxed goods but the handing over of any good in exchange for payment that gives the person receiving that good the authority to act as though it were its owner, which means that business transactions such as consignments are liable to this tax.

Entry of goods into the country: This refers to what we know as imports, understood to mean the introduction of goods inside the customs borders. In other words, for tax purposes, the dispatch of merchandise not only from abroad is considered importing, but also from customs free zones to non-customs free zones inside Uruguayan territory and, therefore, this too is a "generator" of VAT. Conversely, the introduction of goods from non-customs free Uruguayan territory to a customs free zone is deemed to be an export operation.

Services are defined as any provision of a service in exchange for payment that, without constituting a transfer, provides the other party with an advantage or benefit that constitutes the cause of the valuable consideration.

Finally, the cited tax reform added a fourth less important generator defined as the "added value in the construction of real property." The sole purpose of this addition is to exercise control over potential tax evasion in the construction of real estate by private individuals.

7.2 Taxpayers

An individual or entity becomes a taxpayer liable to VAT when they are involved in one of these two umbrella activities:

- activities that falling within the scope of or are subject to income tax on economic activities (IRAE), which we will discuss next;
- provision of personal services outside a relationship of dependence.

In general terms business activity, whether engaged in by companies or by individuals, falls within the first definition, and the second refers to activities performed by persons practicing the liberal professions and a series of services (nonprofessional) provided by experts or skilled workers, independent workers, etc.

7.3 Tax Rates

VAT rates are as follows: a maximum of 22% and a minimum of 10%.

In general terms, the minimum rate is levied on goods making up the basic family basket (food, hygiene products, medicines, passenger transport, health services). Besides this major group of goods and services, since the tax reform the minimum rate also applies to the first sale of real property by construction companies.

The maximum rate applies to services and the remainder of goods that are either not exonerated or are levied at the minimum rate.

The extensive list of exonerations includes land, real property leases, agricultural products in their natural state (suspended VAT), hotel and catering services for foreign tourists (equated with exports), consultancy services provided to beneficiaries abroad (equated with exports), cultural activities, etc.

8. Tax on the transfer of agricultural goods (IMEBA)

The Tax on the Transfer of Agricultural Goods (IMEBA) is levied on the first transfer, on any terms, of the following goods by agricultural producers to persons who are liable to IRAE, Municipal Administrations and State Organisms:

- wool and hides from cattle and sheep;
- cattle and sheep;
- suina;
- cereals and oil seeds;
- milk;
- products from poultry farming;
- products from apiculture;

- products from rabbit farming;
- flowers and seeds;
- fruit and vegetable produce;
- citrus produce;
- products derived from frog farming, snail farming, the breeding of rhea farming, the breeding of otters and the like.

Consequently, the sale between producers is exonerated.

The rates of this tax are low. The tax is withheld by the companies that buy their production from producers and does not represent a significant cost for the latter. The purpose of the tax is basically to exercise control over domestic production.

9. Unified tax (MONOTRIBUTO)

The Unified Tax (monotributo) is levied on small business activities economically speaking and is applied in lieu of special social security contributions and all national taxes, with the exception on those levied on imports.

This tax was created to regularize a large number of activities that are conducted outside the tax and social security regulations and whose individual volume is small in terms of value (street artisans, fair vendors, informal on-street parking attendants, small stores, tourist guides, pet walkers, etc.